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BEFORE THE

Federal Communications Commission

WASHINGTON, D.C. 20554

In the Matter of

Implementation of Section 309(j) of the Communications Act - Competitive Bidding Marrowband PCS

Amendment of the Commission's Rules to Establish New Marrowband Personal Communications Services SEF 16 77

PP Docket No. 93-253

GEN Docket No. 90-314 ET Docket No. 92-100/

To: The Commission

COMMENTS OF AIRTOUCH PAGING

AIRTOUCH PAGING

By Mark A. Stachiw Its Attorney

Mark A. Stachiw AIRTOUCH PAGING Suite 800 12221 Merit Drive Dallas, Texas 75251 (214) 458-5200

September 16, 1994

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SUMMARY

AirTouch Paging is commenting on the <u>Further</u>

Notice of <u>Proposed Rulemaking</u> in which the Commission is proposing to alter the rules governing narrowband PCS auctions for the <u>Major Trading Area</u> and <u>Basic Trading Area</u> licenses.

AirTouch Paging supports the Commission's intent to create meaningful opportunities for participation in narrowband PCS for designated entities. AirTouch Paging, however, is seriously concerned that the Commission proposal does not serve the Commission's stated goals or the public interest. First, the Commission's proposal unfairly changes the narrowband licensing process in midstream and seriously undermines the reasonable expectations of the bidders who participated in the nationwide narrowband PCS auction and made important decisions based upon the previously established rules. Second, the Commission's proposal does not serve the public interest because it proposes to set aside over 65% of the MTA and BTA licenses thereby seriously skewing the process. Third, the Commission's definition of eligible bidders for the proposed entrepreneur licenses includes numerous businesses which have not been historically denied access to capital.

For the stated reasons, AirTouch Paging cannot support the radical changes that are proposed.

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COMMENTS OF AIRTOUCH PAGING

AirTouch Paging, by its attorney, hereby submits its comments on the <u>Further Notice of Proposed Rulemaking</u> which proposes to revise the licensing and auction rules governing narrowband PCS in the Major Trading Areas ("MTAs") and Basic Trading Areas ("BTAs"). The following is respectfully shown:

Third Memorandum Opinion and Order and Further Notice of Proposed Rulemaking, FCC 94-219, released August 17, 1994 ("Further Notice"). AirTouch's comments are limited to the notice of proposed rulemaking portion of the decision respecting prospective rule changes for the MTAs and BTAs and not to the rule changes implemented for the impending regional narrowband PCS auctions.

I. STATEMENT OF INTEREST

1. AirTouch Paging owns and operates paging facilities throughout substantial portions of the United States, and provides communications service to over 1.3 million units.2 By industry estimates, AirTouch Paging is one of the fastest growing paging companies in the United States. AirTouch Paging also has been a long time proponent of the advanced messaging services which are now defined by the Commission as narrowband PCS, and has taken a very active role at every stage of the docketed proceedings which have been conducted to fashion licensing and auction rules for narrowband PCS.4 The seriousness of AirTouch Paging's interest in narrowband PCS services was demonstrated during the auction of nationwide narrowband PCS channels conducted in July of 1994 at which AirTouch Paging was the high bidder

AirTouch Paging is part of the AirTouch Communications family of companies which provides one-way and two-way wireless communications services throughout the world.

AirTouch Paging (through its predecessor, PacTel Paging) participated in experimental programs to develop advanced messaging services known as Advanced Architecture Paging and Ground to Air Paging, and was an applicant for pioneer preferences for these services. See PP-38 and PP-39.

See PP Docket No. 93-253 (Competitive Bidding) and ET Docket No. 92-100 (Narrowband Rules).

for a single¹ asymmetrically paired (50 kHz-12.5 kHz) nationwide PCS license.⁶

2. Throughout its participation in the proceedings respecting narrowband PCS, AirTouch Paging has been a consistent advocate of rules that would allow auction participants to engage in reasoned business decisionmaking throughout the process. Thus, for example, AirTouch Paging was a major proponent of open ascending bidding procedures which allowed participants enough time between bids to analyze and respond meaningfully to other bids. Similarly, AirTouch Paging has expressed concern on occasion about the extent to which the Commission reserved to itself the right to alter competitive bidding procedures in the course of an auction for fear that such changes would interfere with rational business decisions. If

As the Commission is aware, others against whom AirTouch will be competing in the provision of narrowband services garnered multiple channels. Not surprisingly, AirTouch Paging has an interest in additional spectrum in order to be able to compete effectively.

AirTouch Paging subsequently made the required downpayment, filed its long form application, and its application has been accepted for filing. See FCC Report No. PCS-NB-94-1, released August 17, 1994. No objections have been filed, and AirTouch is hopeful that a grant will be forthcoming in the near term.

While the Commission has retained the rules which enable the agency to alter procedures in the course of an auction, AirTouch's concerns have been addressed in substantial part by Commission pronouncements that radical changes in procedures are not contemplated. The manner in which the Commission conducted the nationwide auction gives credence to these pronouncements, and has served to mitigate AirTouch Paging's concern in this regard.

- Thus, an overarching goal of AirTouch Paging 3. has been to foster rules that are concise and stable so that the considerable costs associated with acquiring spectrum could be justified based upon well thought out business plans and models. In this regard, the Commission must recognize that the nationwide, regional and MTA/BTA channels cannot be viewed in isolation, but rather must be considered as interrelated components in a matrix of communications services. Just as today's major paging companies offer subscribers choices between local, regional and nationwide coverage, a successful narrowband service provider must be able to provide a family of services and a variety of geographic areas of coverage. This means that proper business planning in advance of the nationwide auctions required AirTouch Paging to consider and adopt strategies that transcended the 10 nationwide channels and included the spectrum that was to become available in the regions, MTAs and BTAs.
- 4. AirTouch Paging is concerned that the proposed changes in the narrowband licensing process for MTAs and BTAs are sufficiently radical to undermine the critical element of certainty in the narrowband licensing process that AirTouch Paging has advocated for so long. While AirTouch Paging is sensitive to and supportive of the desires of the Commission to foster the participation of small, women-owned, and minority-owned businesses in PCS, it

believes that these laudatory objectives can be achieved without adopting all of the rule changes proposed in the Further Notice.

II. THE COMMISSION SHOULD NOT OVERREACT TO THE RESULTS OF THE NATIONWIDE NARROWNAND PCS AUCTION

modifications to the existing allocation scheme for MTA and BTA licenses. Under the current rules, designated entities bidding on certain channels are accorded a bidding credit equal to 25% of the bid amount, but without set-asides. In the Further Notice, the Commission proposes to set aside four of seven available MTA licenses and all BTA licenses into an "entrepreneur block". Those eligible to bid for the set aside channels would include only designated entities ("DEs") and any applicant which has annual gross revenues of less than \$125 million and total assets of less than \$500 million. Designated entities would also be accorded a bidding credit of 25% and installment payments with only interest due for a number of years. IV Finally,

The Commission has amended the percentage to increase it to 40% of the bid amount. <u>Further Notice</u> at ¶58.

<u>Id</u>. at ¶¶73-78.

¹⁰ Id. at ¶78.

Id. Depending on the type of designated entity, the Commission has proposed varying bidding credits, including differences in the number of years that the installment payments are principal free, and whether tax certificates are available.

the Commission seeks comment on whether some of the 12.5 kHz response channels should be set aside for designated entities. 12/

- 6. The Commission's proposal to change the licensing rules for narrowband PCS appears to be based in large part on the fact that no designated entities ended up winning nationwide licenses. The Commission cannot assume, however, that the outcome of the nationwide auction provides a fair representation of things to come. There were several unique aspects of the nationwide auction, and there are considerable changed circumstances that will be operative in the forthcoming auctions, that argue against overreacting to the nationwide results.
- 7. The forthcoming narrowband auctions will be different in several key respects including: (a) the lesser involvement of certain large incumbent firms with substantial resources (b) the greater number of licenses that are available the lower absolute cost of individual

^{12/} Id. at ¶122.

The <u>Further Notice</u> highlights the fact that there was significant DE participation in the nationwide auction, but no winning DE applicant. <u>Further Notice</u>, para 73.

For example, Paging Network Inc. and Destineer (formerly Nationwide Wireless Network Corp.), two dominant industry players, each have three narrowband licenses and are ineligible for more.

There are thousands of licenses available in the regions, MTAs and BTAs while there were only 10 nationwide licenses.

licenses¹⁶; (d) the greater amount of time that participants will have had to form consortia and to assemble financial resources; and, (e) the increased credits available in subsequent rounds¹⁷. AirTouch Paging expects these factors to result in the substantial representation of DEs in the ranks of successful bidders without wholesale changes in the previously adopted rules.

8. AirTouch Paging also believes that the novelty of the first auction resulted in some unusual behavior that makes it unwise to view the results as predictive of future outcomes. For example, auction experts generally advised that it would be economically disadvantageous for a single bidder to top its own high bid. Yet, this behavior occurred with some regularity during the nationwide auction. The Commission should not assume that this type of behavior, which quickly drove prices beyond the reach of all designated entities during the nationwide narrowband PCS auction, will be repeated in the subsequent regional, MTA, and BTA auctions. 18

The smaller geographic areas encompass fewer "pops" and thus will command lower auction prices.

Installment payments will be allowed in subsequent rounds, but were not available in the nationwide auction. Also, the potential bidding credit in the regions has been increased from 25% to 40%.

To some extent, this behavior may have resulted from the rather unique nature of a nationwide license which permits a licensee to build facilities anywhere in the United States at the maximum power of 3500 watts E.R.P. MTA and BTA (continued...)

Despite this uncertainty about the 9. representativeness of results of the nationwide narrowband PCS auction, the Commission plans to substantially alter the ongoing process by removing a significant number of licenses from the reach of some bidders. AirTouch Paging believes that it is patently unfair for the Commission to change its rules to such a magnitude in midstream. Bidders in the nationwide auction who were either unsuccessful or did not get all the spectrum they wanted or needed, made their decisions not to bid higher or on more licenses based upon a reasonable expectation that they would be eligible to bid on other spectrum in subsequent auctions. 19/ These bidders who sought to base their decisions on reasonable business and economic factors now face significantly reduced license opportunities which materially alter the prospects (and

^{18/(...}continued)
 licensees will have considerably less freedom to
 geographically place transmitters because of the size of the
 areas licensed and the power used on those transmitters.

For instance, AirTouch Paging decided not to vigorously pursue additional nationwide narrowband PCS licenses based on the expectation that it would have a meaningful opportunity to participate in future auctions. Indeed, AirTouch Paging believes that several other bidders also made similar decisions based upon the expectation that future auctions would be open to them. Although AirTouch Paging has had no discussion with other bidders about their strategies, AirTouch Paging suspects that some of the last bidders to drop out (such as American Paging) stopped bidding for this very reason.

likely costs) of their future participation. The public interest is not served when some bidders, through the operation of subsequent rulemakings, have their cost of business driven up because such a cost increase leads to significant disparities in the market.

10. In essence, the Commission is engaged in retroactive rulemaking by changing the licensing process in midstream. Well-reasoned principles of administrative law establish that retroactive decisionmaking is not favored.

III. THE COMMISSION PROPOSES TO SET ASIDE TOO NUCH SPECTRUM

of the seven MTA channels in each MTA and all of the BTA channels. 21/ This represents approximately 65% of the total spectrum available on an MTA and BTA basis. The Commission has also increased the bidding credit from 25% to 40% for designated entities in the regional narrowband PCS auction. 22/ The Commission also seeks comment on whether some of the 0-12.5 kHz channels should also be set aside for designated entities. 23/

Bidding credits also drive up prices when everything else is equal. The Commission, by limiting access to additional spectrum and increasing bidding credits, has dealt the proverbial one-two punch to these potential bidders.

Further Notice at ¶¶73-78.

Further Notice at ¶58.

See Further Notice at ¶122.

12. The total amount of spectrum proposed to be set aside in the entrepreneur blocks appears excessive. By reserving such a large amount of spectrum, those rendered ineligible will suffer substantial increases in their cost of providing the service, if they are able to provide narrowband PCS service at all.²⁴ As the Commission observed in the pioneer preference context, it does not serve the public interest to have substantial differences in the cost of providing service because if someone

were to receive a license without paying anything [or for substantially less than fungible licenses] while other narrowband PCS providers were forced to pay substantial sums for their licenses, the Commission's licensing policies might have a significant impact on the competitive marketplace. (footnotes omitted) 25/

13. The same reasoning should disfavor a licensing scheme that will result in wildly disparate costs of spectrum as a result of restricted eligibility in the bidding process. The Commission should expect that the regional and non-set aside MTA licenses will have both entrepreneur and non-entrepreneur bidders. Given that

AirTouch Paging estimates that the cost of acquiring the spectrum is at least one-fourth to one-third of the cost of providing the service.

Memorandum and Order, <u>Application of Nationwide Wireless</u>
Network Corp for a Nationwide Authorization in the
Narrowband Personal Communications Service, FCC 94-187
(Released July 13, 1994) at ¶¶17 and 19. The Commission
went on to observe that such a grant with a disparity in
difference in cost would not "serve the public interest,
convenience, and necessity." Id.

certain companies will only be able to bid on nonentrepreneurial channels, the bid price for those channels will be substantially greater than the other channels.²⁶

- Act of 1993²⁷ does not require such a large set aside for designated entities. The <u>Budget Act</u> requires that the Commission "ensure that small businesses, rural telephone companies, and businesses owned by members of minority groups and women, are given the opportunity to participate in the provision of spectrum-based services." This does not require the Commission to take over 65% of the remaining spectrum and award it to designated entities. Indeed, if the Commission more narrowly defined the category of designated entities permitted to participate in the entrepreneur blocks, as suggested below, then fewer channels would be required to meet the Congressional mandate.
- 15. In addition, as the Commission has recognized, narrowband PCS services are a natural outgrowth of existing paging services. By proposing to eliminate the eligibility of several significant paging carriers, the

This follows traditional economic models of supply and demand. As the demand increases, the price a buyer is forced to pay increases. Given the substantial amount of spectrum set aside for entrepreneurs, the Commission could expect significant differences in winning bids between these two fungible blocks of spectrum.

^{21/} P.L. 103-66 ("Budget Act").

^{28/} Section 309(j)(4)(D).

Commission is dooming those carriers to either increased costs to provide narrowband services as a result of higher licenses prices, or to extinction because they cannot afford to purchase the spectrum. This would not serve the public interest because these very same carriers are best situated to pass on to subscribers the economic benefits of economies of scale and scope which new entrants would not. The public interest would, therefore, be best served by minimizing the amount of spectrum which is subject to an outright set aside.

- set-aside only the BTA channels for designated entities. If the eligibility to bid on the set-aside channels is limited to those DEs who are most in need of assistance, (as proposed in Section IV, within) then the BTA channels should suffice to result in significant and meaningful DE participation. This is particularly true if the Commission revises the licensing scheme to assign these channels on an MTA rather than on a BTA basis.²⁹
- of large rather than small geographic areas as the basis for narrowband PCS licensing because of the wide-area nature of the messaging markets. The touchstone for the allocation scheme should be to strike an appropriate balance between

In the <u>Further Notice</u>, the Commission sought comments on whether the BTA channels should be licensed on a broader geographic scale. <u>Further Notice</u>, para. 122.

the number of licenses available to designated entities and the size of the market areas to be licensed. AirTouch Paging believes that an appropriate balance would be struck if the two channels now designated on a BTA basis were set aside and converted to MTAs. We Licensing two set aside channels on an MTA basis would create a minimum of 100 opportunities for small businesses, and women and minority owned businesses, to participate in narrowband PCS on a meaningful geographic basis. This is 10 times the number of licenses auctioned during the nationwide auction.

18. The Commission also sought comment on whether it should set aside some of the 0-12.5 kHz channels for designated entities and/or license such channels on a broader geographic scale. AirTouch Paging continues to believe that the Commission should license the 0-12.5 kHz channels on an MTA or greater basis. In a significant number of areas, service is provided over a MTA or greater

If regional licenses were used, the number of opportunities for designated entities would drop ten-fold. If nationwide licenses were used, the number would drop twenty-fold.

There were approximately 6 designated entities of the twenty-nine total bidders for nationwide Narrowband PCS channels. Given that the Commission should expect only a slight increase in designated entities participating in future auctions, 100 opportunities for a licenses should be sufficient.

Further Notice at ¶122.

AirTouch Paging joined PageNet and NABER in supporting MTA or greater 0-12.5 kHz licenses in the Reconsideration of the Narrowband PCS Order.

basis. AirTouch Paging, however, disagrees with the Commission proposal to set aside any of these channels for designated entities.

The factual predicate for granting preferences to designated entities is that they are underrepresented in the wireless industry. If, however, the designated entities are not already paging licensees, they will not be eligible to bid on the 0-12.5 kHz licenses.35/ A designated entity might apply and then sell these channels to an existing paging licensee after the holding period expired. This behavior, however, is exactly the type of behavior that the Commission is trying to deter. It is difficult to understand how designated entities would be benefitted by setting aside channels for which they are not eligible. The benefit of such a set aside would be illusory, while the harm would be substantial. There are only eight 0-12.5 kHz channels, a set aside of 25% of them to entities which may not even be eligible does not serve the public interest. 36

For instance, AirTouch Paging's West Coast system extends over 6 MTAs.

The Commission's Rules restrict the use of these response channels to those with existing paging channels, so they are useless by themselves.

The Commission's Rules restrict the eligibility even further for these channels by requiring the applicant to also provide service in the area being licensed.

IV. THE COMMISSION'S DEFINITION OF ENTITIES ELIGIBLE TO BID IN THE ENTREPREMEUR BLOCKS IS TOO BROAD

20. The Commission in the <u>Further Notice</u> proposes that entities with gross annual revenues of less than \$125 million and total assets of less than \$500 million be eligible to bid in the entrepreneur blocks. The rationale for this definition was to exclude "large companies from bidding in the proposed entrepreneur's blocks" which would result in

enhanced opportunities for smaller entities to become PCS providers and thereby ensure that narrowband PCS licenses will be disseminated 'among a wide variety of applicants,' as required by Section 309(j)(3)(B). M35/

21. This rationale, however, is not supported by the Commission's definition of eligible bidders. AirTouch Paging has examined public information on most of the large paging providers in the United States. Of these paging providers, only a handful -- including AirTouch -- would be limited by the proposed rules. For instance, of the top twenty paging providers, only three are excluded solely on the basis of their net revenues exceeding \$125 million.³⁹

^{37/} Id.

^{38/} Id.

These include AirTouch Paging, BellSouth (MobileCom and Graphic Scanning), and Mobilemedia. The other two large paging providers, Paging Network, the largest paging provider in the United States, and Destineer Corporation (associated with MTel), have been awarded three licenses so they are no longer eligible for additional licenses.

Several others, such as Ameritech, Bell Atlantic Paging, KDM Messaging, and American Paging are excluded based upon their affiliation with large corporations. The remainder of the paging industry, which includes six publicly traded companies, was eligible to bid in the entrepreneur blocks.

22. Defining an entrepreneurs block that includes so many publicly-traded companies which are not DEs in any traditional sense does not serve the public interest. First, most of the paging industry has not suffered from the historical discrimination in the access to capital that minority and women owned firms have experienced. 41/ In fact, most of these businesses have access to substantial capital through public stock offerings, supplier financed debt, and revolving credit lines. By using such a broad definition, the Commission waters down the opportunity for the minority and women owned businesses and the truly small business. AirTouch Paging supports affording historically disadvantaged groups access to new opportunities. However, if virtually all of the paging industry is included as being eligible to participate in the entrepreneur blocks, these firms, with the ability to raise the needed capital, may be

These include Arch Communications, DialPage, Metrocall, ProNet, and Page America.

Further Notice at ¶¶64-72.

able to outbid the truly disadvantaged firms for whom the Commission must provide opportunity. 42/

being eligible to bid in the entrepreneur blocks is disproportionate to the projected cost of the spectrum and the cost of building a system. The genesis of the annual revenue amounts and total asset values is the broadband PCS Order. Although not explained in any great detail in the Broadband PCS Auction Order, the ceiling appears to have been picked to exclude Tier 1, but include Tier 2, or medium sized, local exchange carriers. It will, however, cost substantially more to acquire a broadband PCS license and to construct a broadband system. As a point of reference, comparisons between paging and cellular systems result in cost differences of 100 to 200 times. If this ratio is

It is interesting to note that a number of these firms were participants in the nationwide Narrowband PCS auction and did not drop out until the bidding reached astronomical heights. If these same firms return to the MTA and BTA auctions, they will outbid the minority and women firms, even with the credits the Commission is according them.

Fifth Report and Order, <u>Implementation of Section 309(j) of the Communications Act - Competitive Bidding</u> (released July 15, 1994) ("<u>Broadband PCS Auction Order</u>") at ¶121.

⁴ Id. at ¶123.

If the broadband PCS goes for even a fraction of the nationwide Narrowband PCS licenses, the costs would be in the hundred of millions for the smallest geographic license area.

A typical paging system consists of 30 to 40 transmitters of a cost of approximately \$30,000 each (including (continued...)

carried into the Narrowband and Broadband PCS context, then the annual gross revenue ceiling adopted for broadband PCS should not be incorporated into the narrowband PCS context.

24. AirTouch Paging believes that the only firms who should be eligible for the entrepreneur blocks are those which the Commission has identified as having been historically denied access to capital. The Commission has identified (i) small businesses with revenues under \$40 million, 41/2 (ii) women owned firms, 44/2 and (iii) minority owned firms 42/2 as fitting within this umbrella. Accordingly, the public interest would be best served by allowing only those firms to bid for any set-aside channels.

^{**(...}continued) installation). A typical cellular system in the same area consists of at least that many cell sites with a cost of over \$5 million each.

Further Notice at ¶71. The Commission does not seem to have any factual substantiation for support in including small businesses in this category.

⁴ Further Notice at ¶¶66-70.

^{49/} Id.

VI. COMCLUSION

25. The foregoing premises having been duly considered, AirTouch Paging respectfully requests that the Commission expeditiously revise its proposed Rules to reflect AirTouch Paging's comments.

Respectfully submitted,
AirTouch Paging

Rv:

Mark A. Stachiw Its Attorney

Mark A. Stachiw AIRTOUCH PAGING Suite 800 12221 Merit Drive Dallas, Texas 75251 (214) 458-5200

September 16, 1994

CERTIFICATE OF SERVICE

I, Tana Christine Maples, hereby certify that I have this 16th day of September, 1994, caused copies of the foregoing Comments of AirTouch Paging to be delivered by hand, courier charges prepaid, to the following:

*Chairman Reed Hundt **Stop Code 0101** Federal Communications Commission 1919 M Street, N.W., Room 814 Washington, DC 20554

*Commissioner Andrew C. Barrett **Stop Code 0103** Federal Communications Commission 1919 M Street, N.W., Room 826 Washington, DC 20554

*Commissioner Rachelle Chong Stop Code 0105 Federal Communications Commission 1919 M Street, N.W. Washington, DC 20554

*Commissioner James H. Quello Stop Code 0106 Federal Communications Commission 1919 M Street, N.W., Room 802 Washington, DC 20554

*Commissioner Susan Ness Stop Code 0104 Federal Communications Commission 1919 M Street, N.W., Room 832 Washington, DC. 20554

*John Cimko, Chief Mobile Services Division Common Carrier Bureau Federal Communications Commission 1919 M Street, N.W., Room 644 Washington, DC 20554 *A. Richard Metzger, Chief Common Carrier Bureau Federal Communications Commission 2025 M Street, N.W., Room 500 Washington, DC 20554

Tana Christine Maples

* Denotes Hand Delivery